

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

APPLICATION OF PEOPLES RURAL TELEPHONE)	
COOPERATIVE CORPORATION, INC., FOR (1))	
AN UPWARD ADJUSTMENT IN RATES AND CHARGES)	
FOR TELEPHONE SERVICE, AND (2) A CERTIFI-)	
CATE OF PUBLIC CONVENIENCE AND NECESSITY)	CASE NO. 8270
FOR THE PURPOSES OF CONSTRUCTING ADDI-)	
TIONAL TELEPHONE LINES AND FACILITIES,)	
AND (3) APPROVAL OF THE PROPOSED PLAN)	
OF FINANCING OF SAID PROJECT)	

O R D E R

On June 30, 1981, Peoples Rural Telephone Cooperative Corporation, Inc., ("Peoples") filed an application with this Commission requesting authority to increase its rates and charges by approximately \$696,759 annually. The stated amount of increase included projected revenue of \$327,074 based on the addition of 204 new subscribers. In determining the actual amount of increase requested by rural telephone cooperatives the Commission utilizes the number of subscribers at the end of the test period and the present and proposed rates. This methodology results in an accurate representation of the amount and percentage of increase requested. In these terms the requested increase was \$201,997 or 18.4 percent.

On October 5, 1981, Peoples amended its application seeking authority to borrow \$1,756,000 from the United States of America acting through the administrator of the Rural Electrification Administration ("REA") to be amortized over a period of

35 years at an interest rate of five percent per annum, and to execute the necessary notes for the proposed loan. Peoples further requested a certificate of public convenience and necessity for the purpose of constructing additional telephone lines and facilities, all as more specifically set out in the application and record.

Peoples proposed to use the loan funds for the following purposes:

- (a) Add 204 new subscribers;
- (b) Provide for related system improvements including additions to existing toll and EAS facilities and a new digital remote switch in the Booneville exchange; and
- (c) Provide for engineering fees.

On July 7, 1981, the Consumer Protection Division of the Attorney General's Office filed a motion to intervene in this proceeding, which was sustained.

A hearing was held at the Commission's office in Frankfort, Kentucky, on September 24, 1981. At the conclusion of the hearing and following responses to all requests for additional information, the matter was submitted for final determination by the Commission.

Commentary

Peoples is a customer-owned telephone cooperative established under Chapter 279 of the Kentucky Revised Statutes. Peoples provides telephone service to approximately 4,548 subscribers in the Kentucky counties of Jackson and Owsley.

Test Period

Peoples proposed and the Commission has adopted the 12-month period ending March 31, 1981, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

Valuation

Net Investment

The Commission finds from the evidence of record that Peoples' net investment rate base at March 31, 1981, is as follows:

Utility Plant in Service	\$ 5,956,732
Construction Work in Progress	<u>2,953,268</u>
Total Utility Plant	\$ 8,910,000
Add:	
Materials and Supplies	48,992
Prepayments	24,069
Deduct:	
Depreciation Reserve	<u>1,368,333</u>
Net Investment	<u>\$ 7,614,728</u>

Peoples proposed a net investment rate base as of the end of the test year of \$10,849,773. In determining this net investment, Peoples adjusted utility plant in service and the depreciation reserve to reflect the proposed construction project upon completion and to record the effect of the proposed extraordinary retirement as set out on page 16 of the application.

The Commission has adjusted the depreciation reserve to include only the allowed pro forma depreciation expense adjustment of \$26,633. In making this adjustment the Commission has recognized in the rate base only the additional depreciation associated with the year-end plant in service and has not included the adjustment for the extraordinary retirement. The Commission has further adjusted Peoples' rate base in accordance with past policy to exclude working capital due to its advance billing for local service.

Capital Structure

The Commission finds from the evidence of record that Peoples' capital structure at the end of the test period was \$8,585,365 and consisted of \$817,026 in equity and \$7,768,339 in long-term debt.

The Commission has given due consideration to these and other elements of value in determining the reasonableness of the rate increase requested herein.

Revenues and Expenses

Peoples proposed several adjustments to revenues and expenses as reflected on its income statement shown on page three of the application. The Commission finds that the adjustments proposed by Peoples are generally acceptable for rate-making purposes with the following modifications:

The Commission has adjusted operating revenues by \$89,054 to include interest during construction for rate-making purposes.

Local service revenues have been increased by \$983 to reflect the elimination of employee concession services for rate-making purposes as it is the opinion of this Commission that ratepayers should not be required to pay an increased rate to return this lost revenue to Peoples.

Peoples proposed an adjustment of \$280,742 to interest expense. The adjustment reflected the annualization of interest expense based on long-term debt outstanding at the end of the test year and additional long-term debt drawn down through August 1981. The proposed adjustment also included additional interest expense on long-term debt unadvanced and long-term debt to be issued in connection with Peoples' proposed construction project. The additional financing for this project will not be required until a future date which is uncertain at this time. Therefore, the Commission will not adjust interest expense for any additional debt to be drawn down beyond August 1981. The adjustment to interest expense allowed herein is \$123,461.

Peoples proposed an adjustment of \$235,378 to depreciation expense to reflect the annualization of depreciation expense for plant in service at the end of the test year. The proposed adjustment also included additional depreciation expense on construction work in progress and the proposed additions to plant less retirements. The Commission is of the opinion that only the depreciation expense associated with test year-end plant in service should be allowed for rate-making purposes. Therefore, the adjustment to depreciation expense allowed herein is \$26,633.

Peoples proposed to adjust property tax expense by \$40,843 for the additional plant to be constructed. The Commission is of the opinion that the property tax expense should be calculated on plant in service at test year end. This results in an adjustment of \$19,372.

Peoples proposed an adjustment of \$2,134 to payroll taxes to reflect the proposed increase in salaries and wages and the increase in the FICA rate effective January 1, 1981. In calculating the FICA adjustment, Peoples applied the increase in FICA rates to the total test year wages although the new FICA rates were in effect for 3 months of the test year. Therefore, the Commission has adjusted payroll taxes by \$1,841 for rate-making purposes.

Peoples proposed an adjustment to amortization expense based on the proposed extraordinary retirement of \$631,610 of various items of plant. The retirements are to be made in connection with the proposed construction project. The actual adjustments required by these retirements will not be known until the physical plant has actually been removed and will not be required until a future date which is uncertain at this time. Therefore, the Commission is of the opinion that the proposed adjustment of \$42,107 should not be allowed for rate-making purposes herein.

Peoples proposed an adjustment to operating revenue to reflect the addition of 204 subscribers who will be added when the proposed construction project is completed. The Commission is of the opinion that the anticipated customer growth and the

proposed adjustments associated with these growth projections are speculative and therefore should not be included herein for rate-making purposes.

The effect on net income of the revised pro forma adjustments is as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 1,090,066	\$ 96,566	\$ 1,186,632
Operating Expenses	858,106	62,298	920,404
Operating Income	<u>231,960</u>	<u>34,268</u>	<u>266,228</u>
Interest on Long-Term Debt	175,920	212,515	388,435
Interest Income	<u>11,789</u>	<u>-0-</u>	<u>11,789</u>
Net Income	<u>\$ 67,829</u>	<u>\$(178,247)</u>	<u>\$ (110,418)</u>

Rate of Return

The actual rate of return on Peoples' net investment established herein for the test year was 3.1 percent. After taking into consideration the pro forma adjustments, Peoples would realize a 3.5 percent rate of return. The Commission is of the opinion that the revised rate of return is inadequate and would impair Peoples' financial integrity. Therefore, Peoples should be allowed to increase its annual revenue by approximately \$201,997 which will result in a rate of return of 6.2 percent. This additional revenue will provide net income of approximately \$91,579 which should be sufficient to meet the requirements in Peoples' mortgages securing its long-term debt.

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

(1) The rates and charges in Appendix A will produce gross annual operating revenues of approximately \$1,388,629 including concession rates of \$983 and interest during construction of \$89,054 and are the fair, just and reasonable rates and charges to be charged in that they will allow Peoples to pay its operating expenses, service its debt and provide a reasonable surplus for equity growth. Further, the rates in Appendix B should be charged for service upon completion of the upgrading to one-party service, said rates to be effective with the first billing date after conversion of each cable route.

(2) The rates and charges proposed by Peoples, insofar as they differ from those in Appendix A, should be denied;

(3) The public convenience and necessity require that such construction and system improvements as are proposed in the application and record be performed, and that a certificate of public convenience and necessity be granted; and

(4) The proposed borrowing is for a lawful object within the corporate purposes of Peoples, is necessary and appropriate for and consistent with the proper performance by Peoples of its service to the public and will not impair its ability to perform that service, is reasonably necessary and appropriate for such purpose, and should be approved.

IT IS THEREFORE ORDERED that the proposed rates and charges as set forth in Peoples' application, insofar as they differ from those in Appendix A, be and the same are hereby denied.

IT IS FURTHER ORDERED that the rates and charges in Appendix A are hereby approved for telephone service rendered by Peoples on and after January 29, 1982.

IT IS FURTHER ORDERED that the rates in Appendix B are approved for service rendered on and after the completion of conversion to one-party service. Said rates shall be placed into effect for each cable route in the first billing period after completion of conversion of such cable route.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, Peoples shall file its revised tariff sheets setting forth the rates and charges approved herein.

IT IS FURTHER ORDERED that Peoples be and it hereby is granted a certificate of public convenience and necessity to proceed with the proposed construction as set forth in the amended application and record.

IT IS FURTHER ORDERED that Peoples be and it hereby is authorized to borrow \$1,756,000 from the United States of America, acting through the Administrator of the Rural Electrification Administration, to be amortized over a period of 35 years at an interest rate of 5 percent per annum, and to execute and deliver to REA the necessary notes therefor.

IT IS FURTHER ORDERED that the proceeds from the borrowing authorized herein shall be used only for the lawful purposes set forth in the application and record.

Nothing herein shall be deemed a finding of value for any purpose nor construed as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to securities authorized herein.

Done at Frankfort, Kentucky, this 29th day of January, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

Katherine Randall
Vice Chairman

Jim Carrigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8270 DATED JANUARY 29, 1982

The following rates are prescribed for customers served by Peoples Rural Telephone Cooperative Corporation, Inc. All rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

<u>RATE CATEGORY</u>	<u>RATE</u>
Business:	
Paystations, Guaranteed	\$ 21.00
PABX-PBX, Common Equipment	243.00
PABX-PBX, Trunks	31.50
Key Systems:	
Common Equipment	77.25
Common Equipment	101.25
Common Equipment	25.00
Each Line	21.00
Extensions:	
Regular	2.00
Off Premises	3.00
PABX	4.00
Key System, 20 Keys	8.60
Key System, 6 Keys	4.00
Key System, Special	5.10
Paystations - Local Service	.25
Residence:	
Extensions:	
Regular	1.50
Off Premises	2.00

RATE CATEGORY (Continued)RATEAuxiliary and Miscellaneous:

Data Coupler	\$ 21.40
Special Circuit	17.25
Alarm Coupler	21.40
Alarm Circuit	5.25
Radio Circuit	15.75
Mileage on Special Circuits:	
First 1/4 Mile	9.00
Each Additional 1/4 Mile	2.55
Each 1/4 Mile (Fire Department)	.40
Line Hold Phone	6.00
Automatic Secretary	22.10
Conference Equipment	22.10
Restricted Calling	14.25
Music on Hold Feature	14.25
Privacy Feature	14.25
Key Equipped Hand Sets	
Two-Lines - Two Holding Keys	5.65
Three Lines - Three Holding Keys	6.00
Switch on Phone	.75
Bells or Horns, Operated by Telephone Cooperative	2.25
Bells or Horns, Operated by Commercial Power	6.75
Howler	4.50
Buzzers	1.50
Amplified Handsets	2.60
Foreign Listing	2.70
Extra Listing	.75
Unpublished Number	1.00
Colored Phones	Eliminate

NONRECURRING CHARGES

Installation New Phone	\$ 26.00
Inside and Outside Moves	26.00
Reinstallation	18.50
Installation Extension With Main Station	14.85
Installation Extension Separate Visit	18.50
Change Type of Phone	18.50
Number Change	18.50
Installation Each Outlet	14.85
Installation Bells, Buzzers, Horns, Howler, Switch	18.50
Installation Long Cord	13.00
Installation Long Line	5.60

RATE CATEGORY (Continued)

RATE

NONRECURRING CHARGES (Continued)

Installation Amplified Handset	\$ 18.50
Installation Outside Extension	26.00
Change Color of Phone	5.60
Installation Radio Loop	37.00
Name Change	6.50
Returned Check	10.00
Collection Fee	14.85
Installation FX Circuit	Actual

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8270 DATED JANUARY 29, 1982.

The following rates are prescribed for customers served by Peoples Rural Telephone Cooperative Corporation, Inc. All rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

<u>RATE CATEGORY</u>	<u>MONTHLY RATE</u>
Business:	
B-1	\$ 21.00
B-4	Eliminate
Residential:	
R-1	13.90
R-4	Eliminate
Zone Charges	Eliminate
Auxiliary and Miscellaneous:	
Mileage on Special Circuits	
Each 1/4 Mile - Multi-Party	Eliminate